

Economic Outlook

Presented to
International Conference of Shopping Centers

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Seattle, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



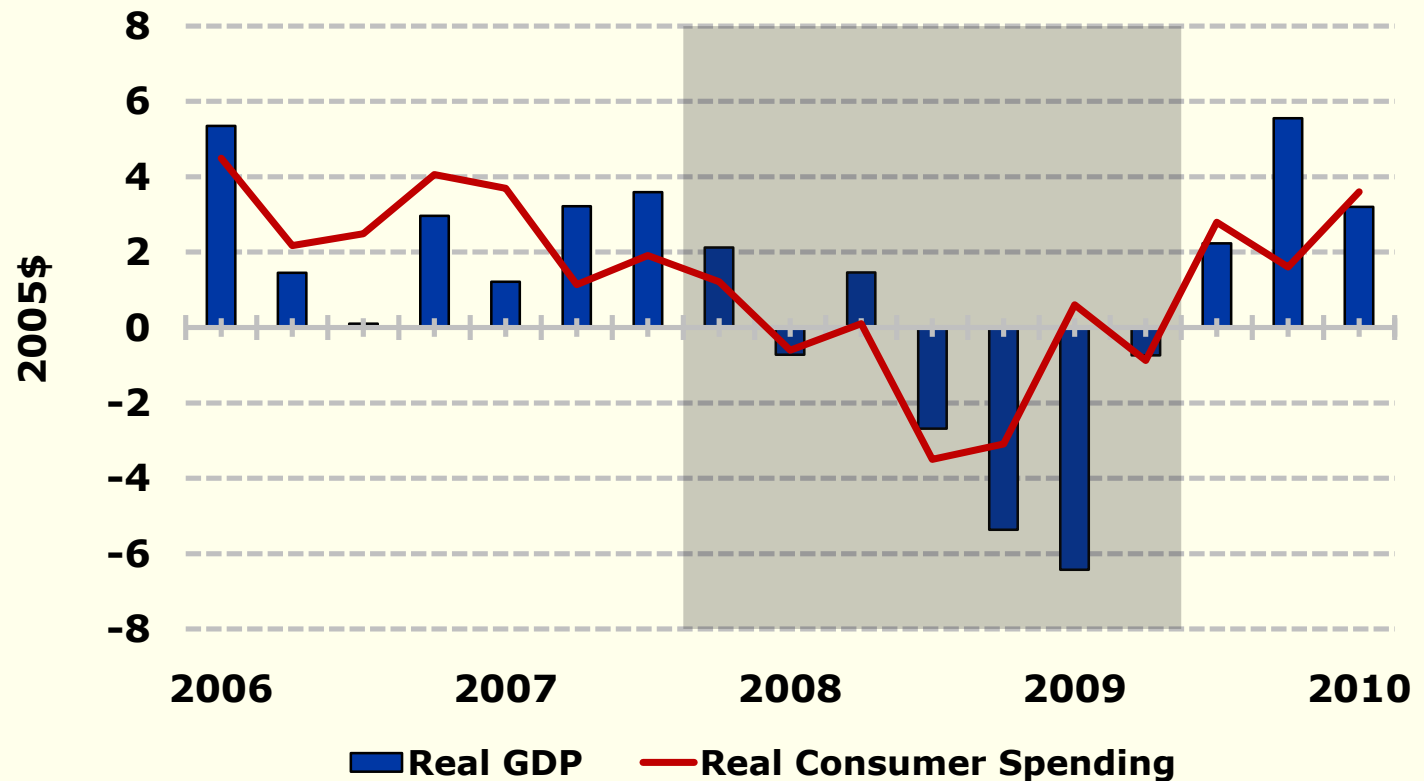
Summary

- There is evidence that the economic recovery stumbled in May – we are now predicting near-term weakness, but a continuing recovery
- The downside risk to the forecast is higher than a month ago
 - Weak jobs report in May
 - Weak retail sales report in May
 - Fears of European contagion
- Other risks are the same as before
 - Downside: weak construction; community banks; tight credit for small business
 - Upside: exports; aerospace; software



We have had 3 consecutive quarters of GDP and consumer spending growth

Percent growth, SAAR



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Source: BEA, data through 2010 Q1

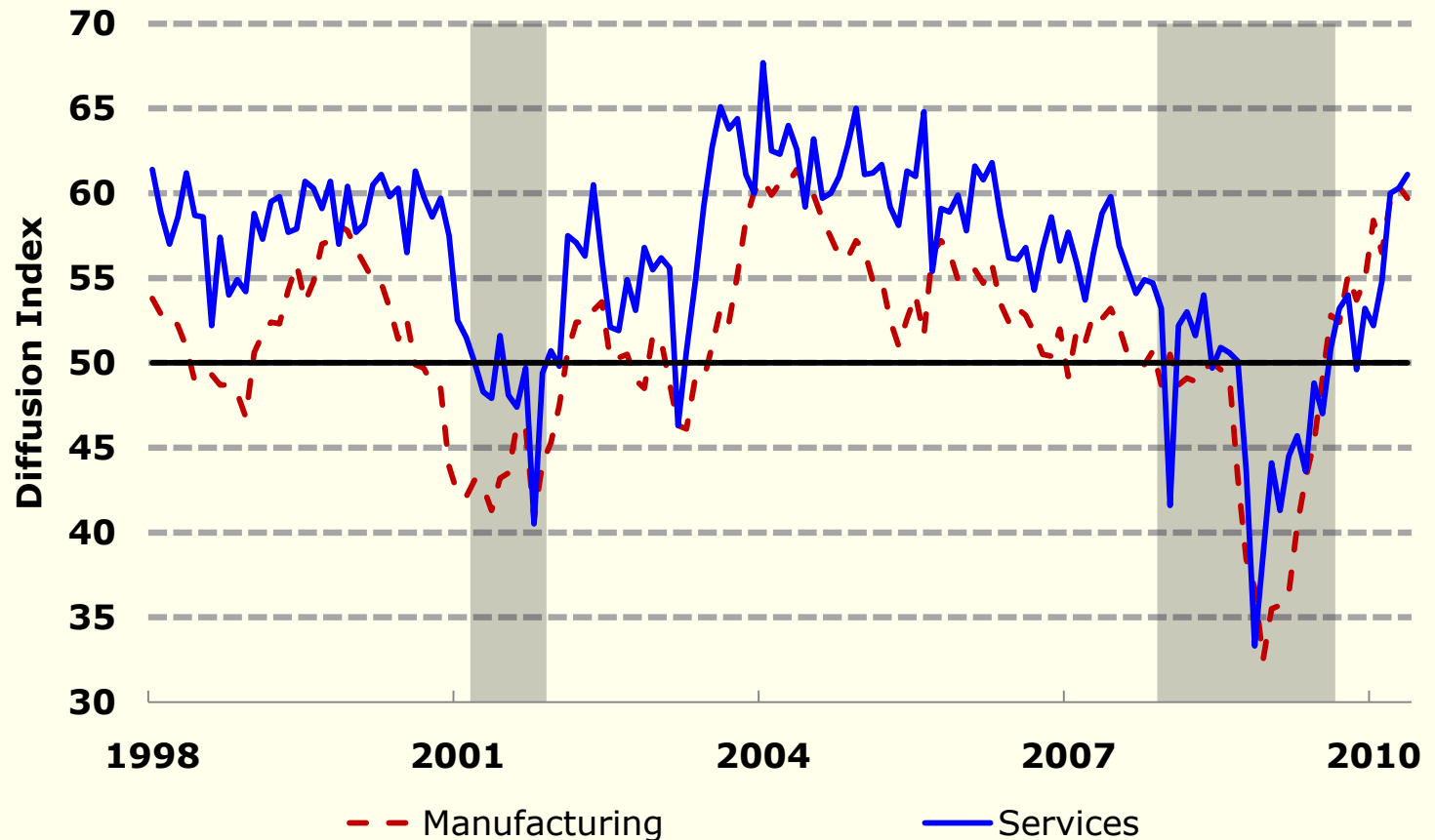
Slide 2

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ISM indices for both services and manufacturing indicate growth

An index greater than 50, implies growth

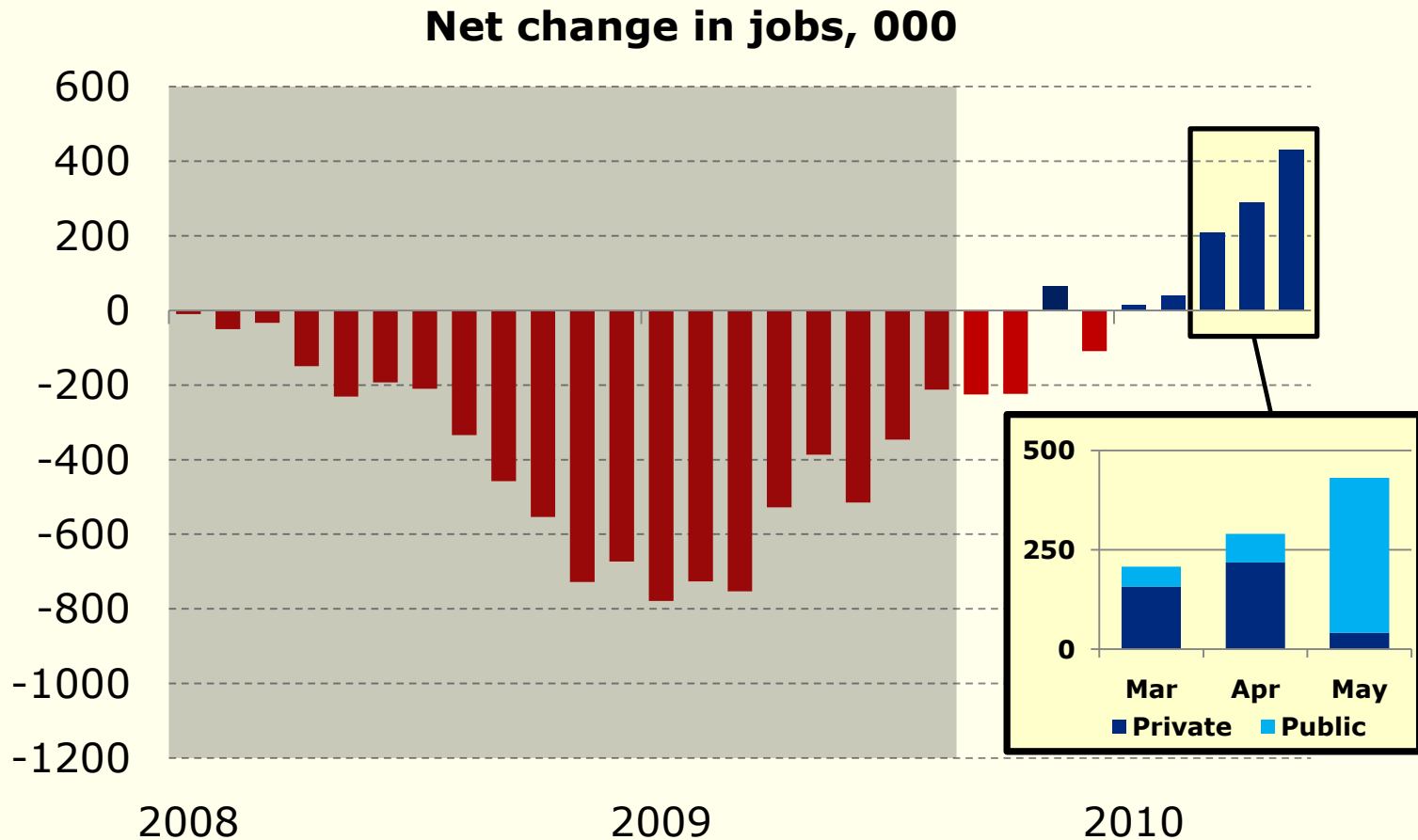


Source: Institute of Supply Management; data through May 2010



The jobs recovery stalled in May

Only 41,000 private sector jobs were added in May, down from 218,000 in April



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Source: BLS; data through May 2010

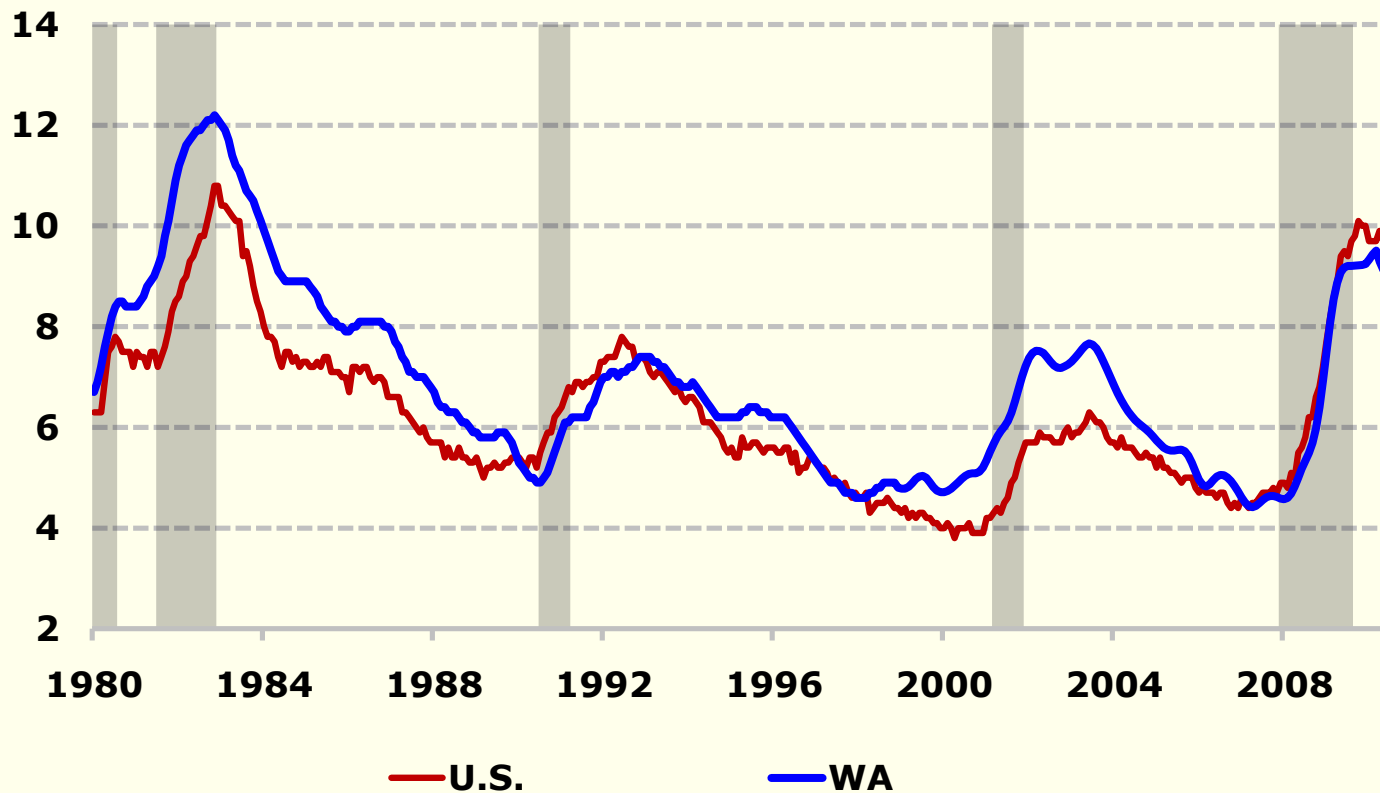
Slide 4



Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through May 2010

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Slide 5



At this stage in 1981-82, the state economy had made up all of the job losses

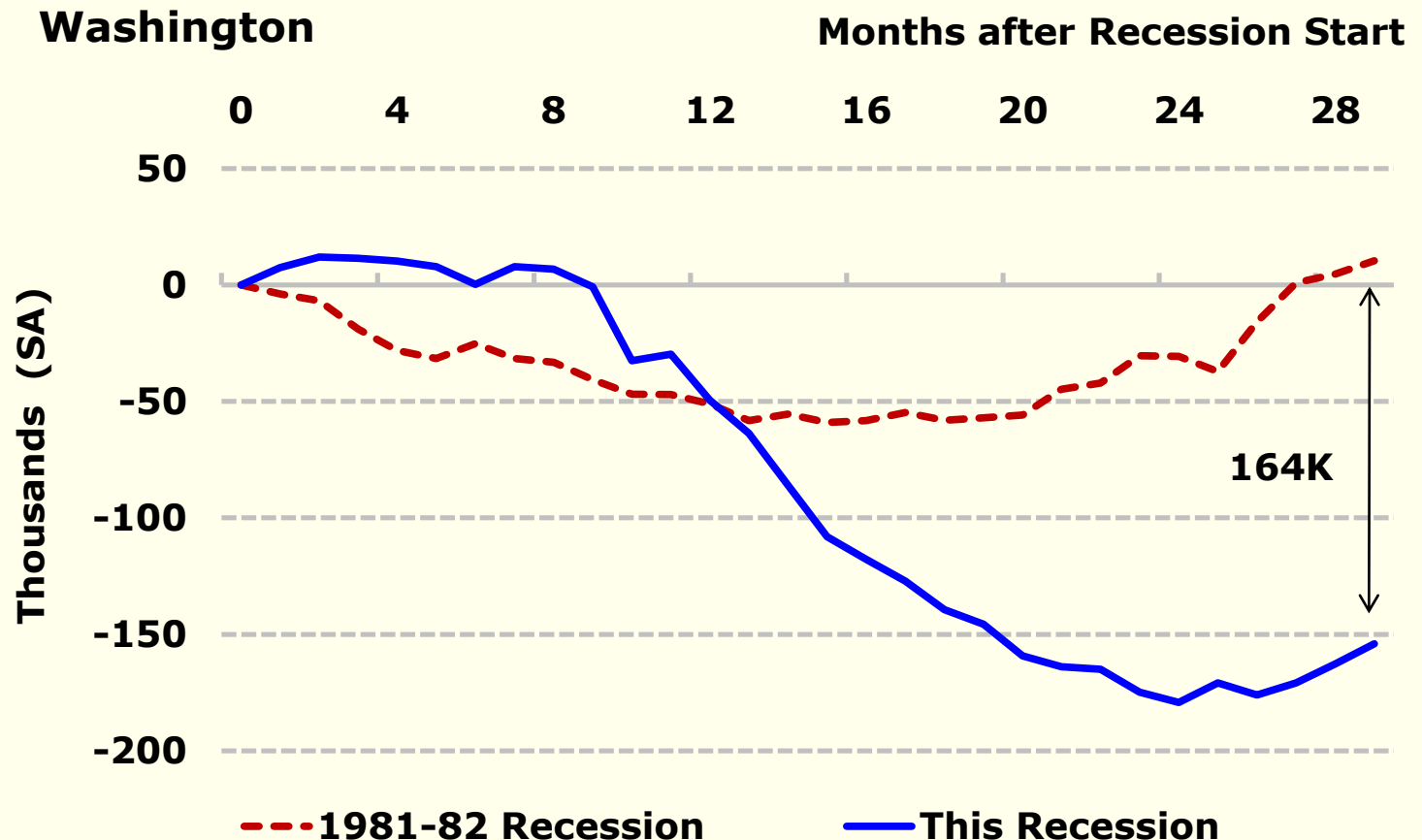
Peak to
trough job
losses

1981-82:

2.9% of
labor force

This time:

5.1% of
labor force



Source: WA State ESD, ERFC; data through May 2010

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The S&P 500 VIX volatility index has spiked recently

This index is a proxy for fear and uncertainty in markets



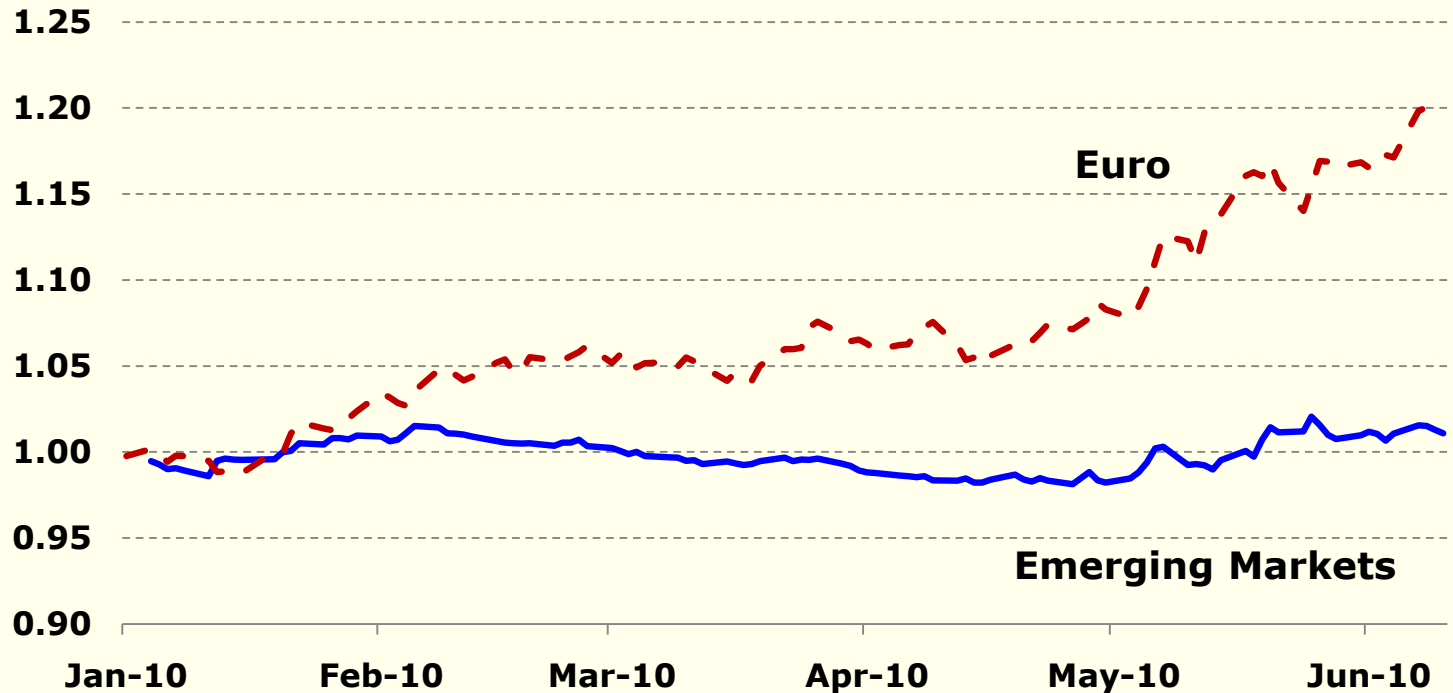
Source: Yahoo Finance; data through June 14, 2010



The USD has appreciated against the EUR this year, but not against emerging market currencies

U.S. Dollar versus select currencies

Index, Dec. 31, 2009 = 1.0



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Source: US Federal Reserve Bank, ERFC; data through June 11, 2010

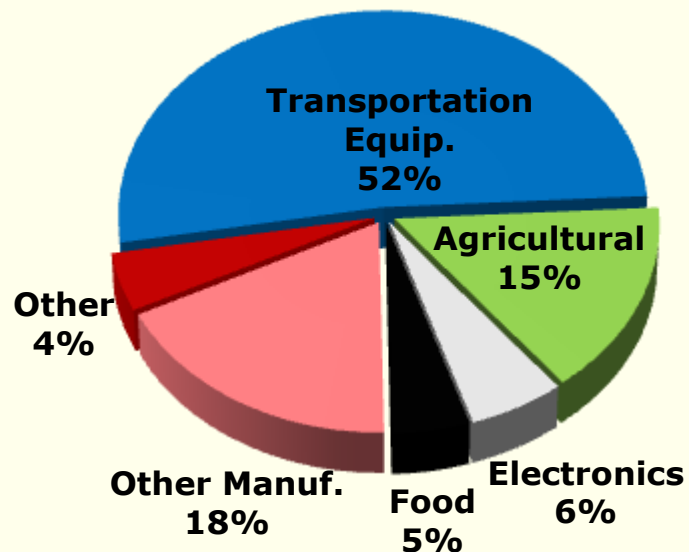
Slide 8



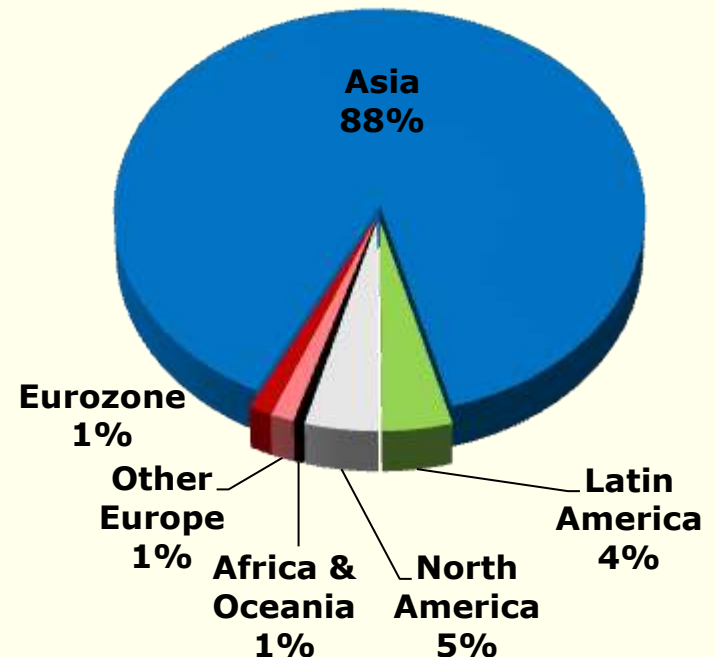
WA exports are less affected by a weaker EUR

2009

Exports By Industry



Destination of Agricultural Exports



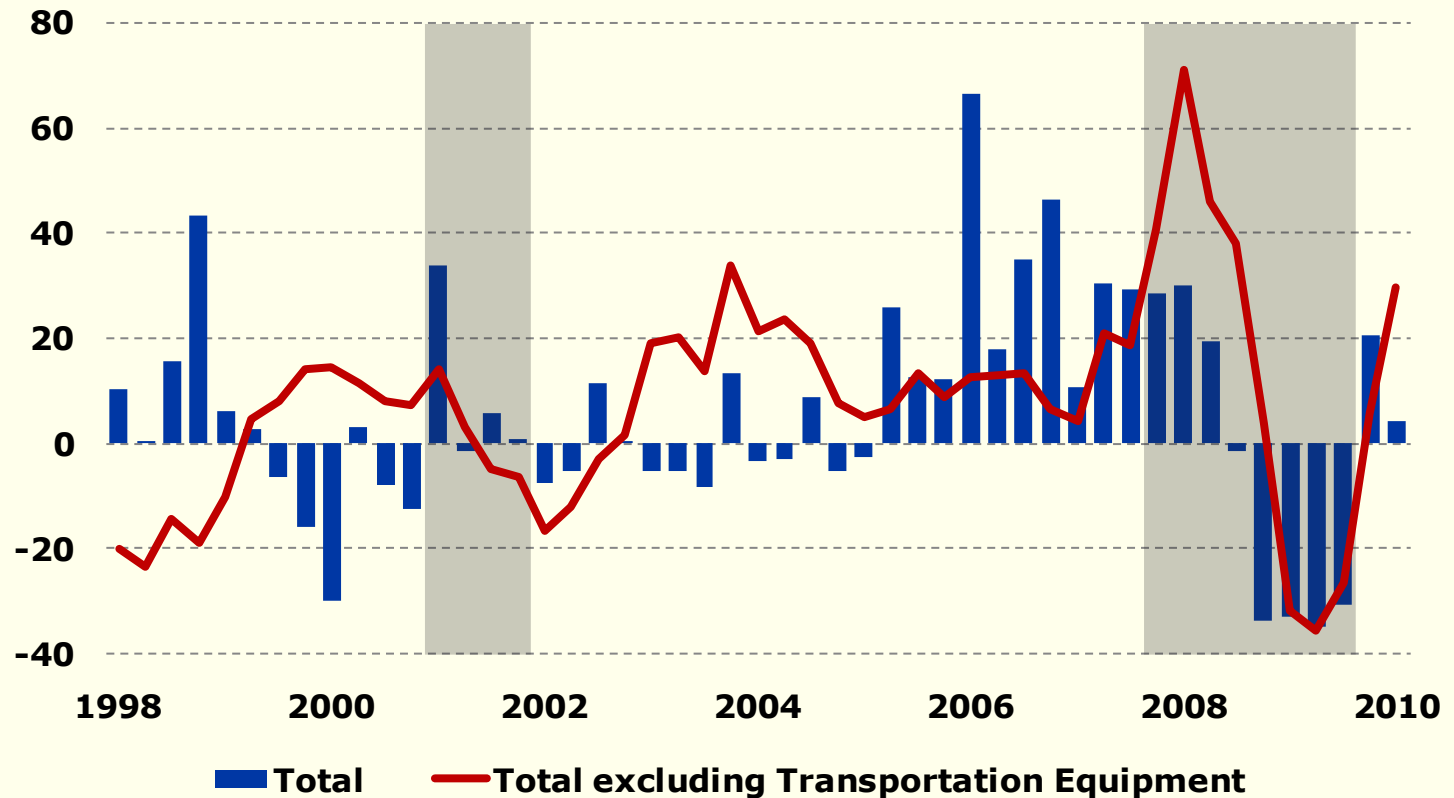
Source: Wiser Trade Data



Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 30% in Q1

Exports
Percent Change, year ago



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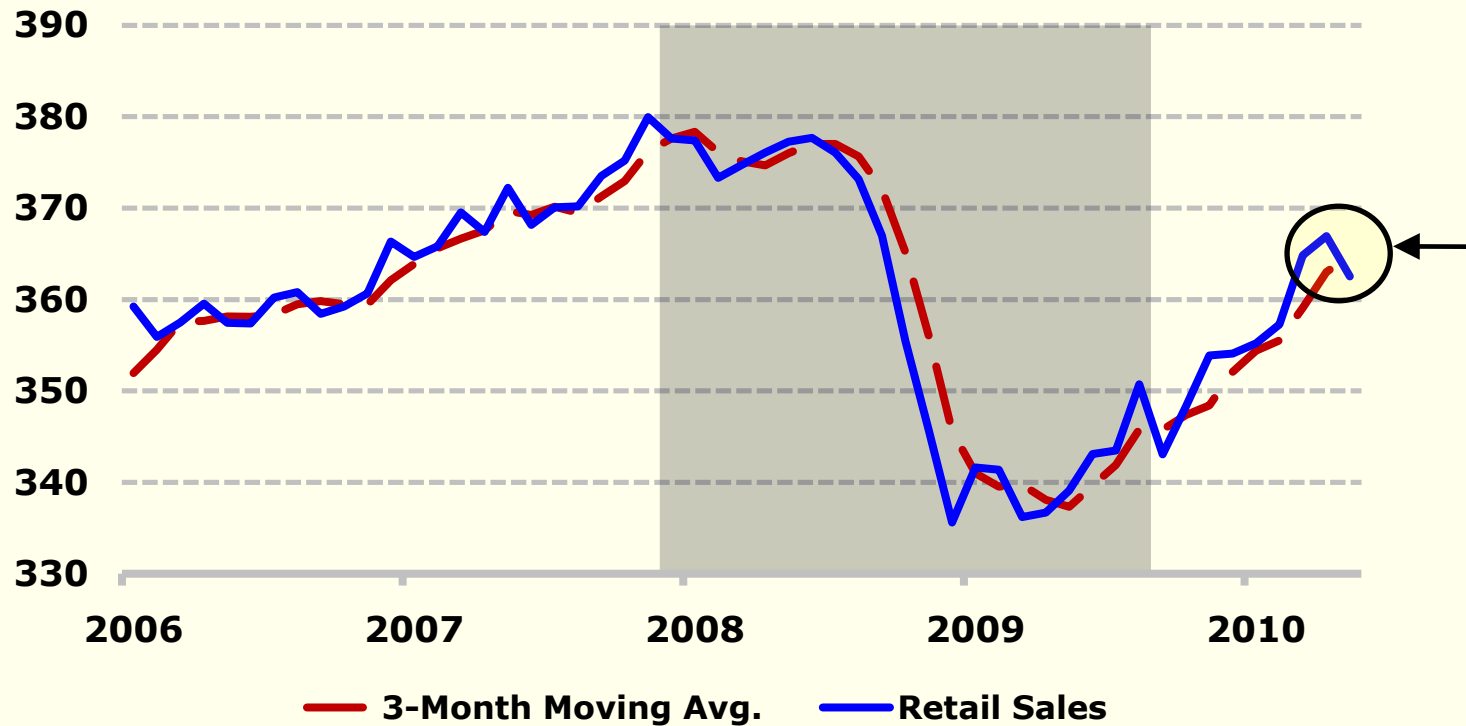
Source: Wiser Trade Data; through 2010 Q1

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Retail sales fell in May

U.S. Retail Sales and Food Services
USD, billions



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Source: U.S. Census Bureau; data through May 2010

Slide 11

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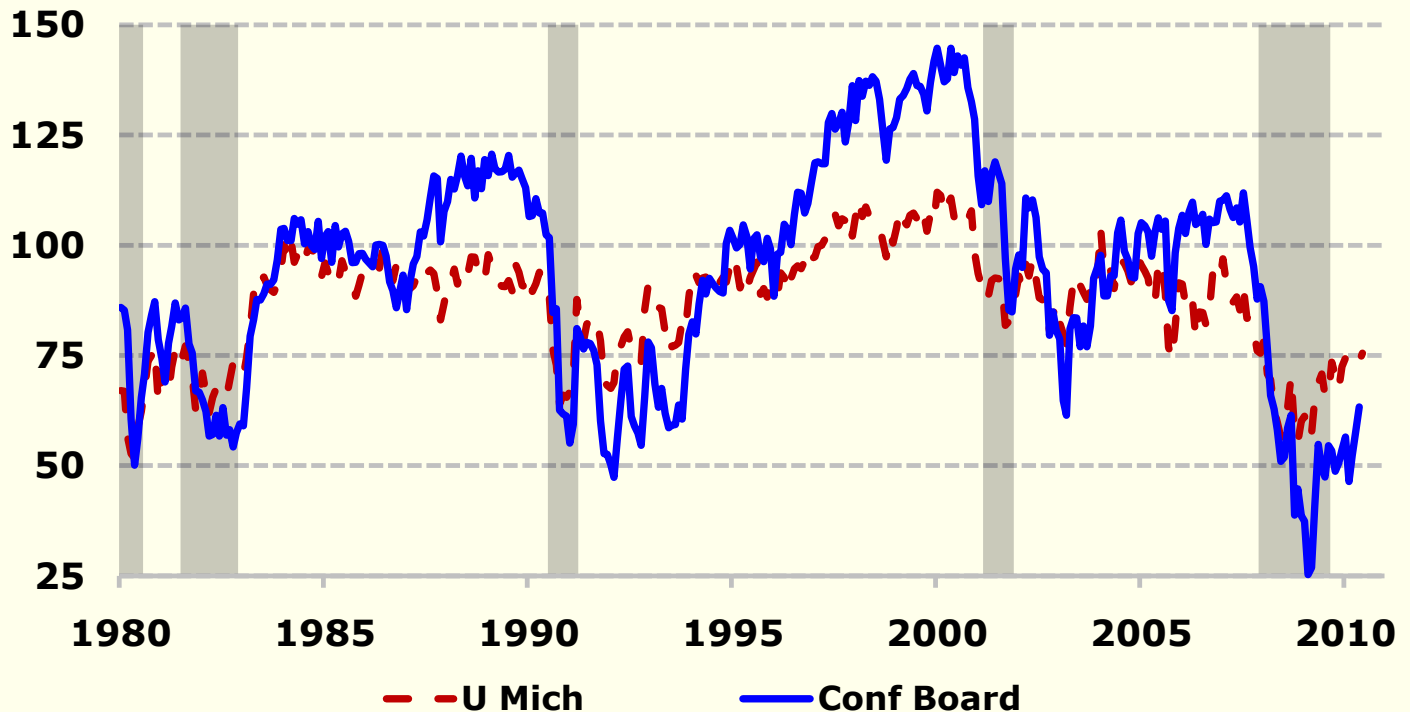


Consumer confidence is improving, but slowly

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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Source: University of Michigan; Conference Board, data through June 2010

Slide 12

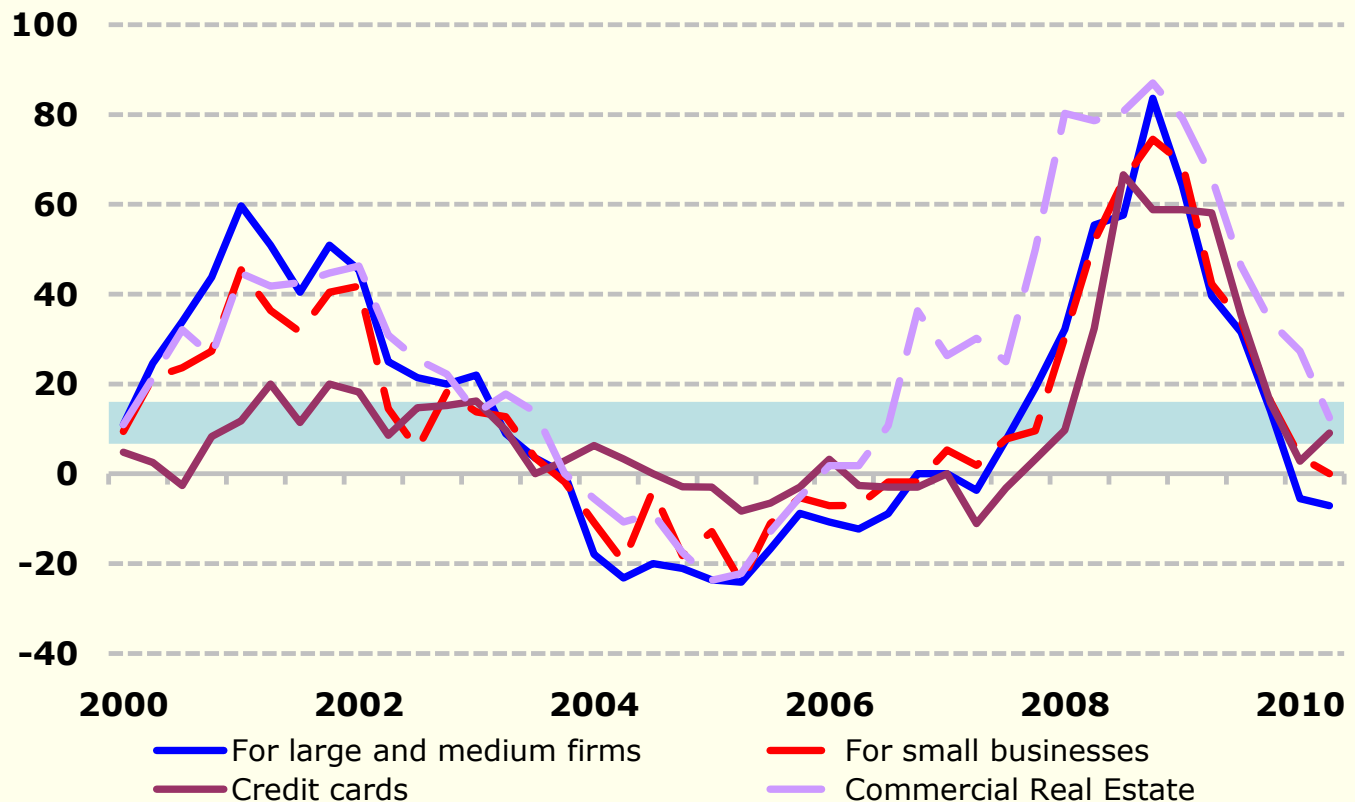
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Large bank lending appears to be easing

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

Net Tightening minus Easing Percent



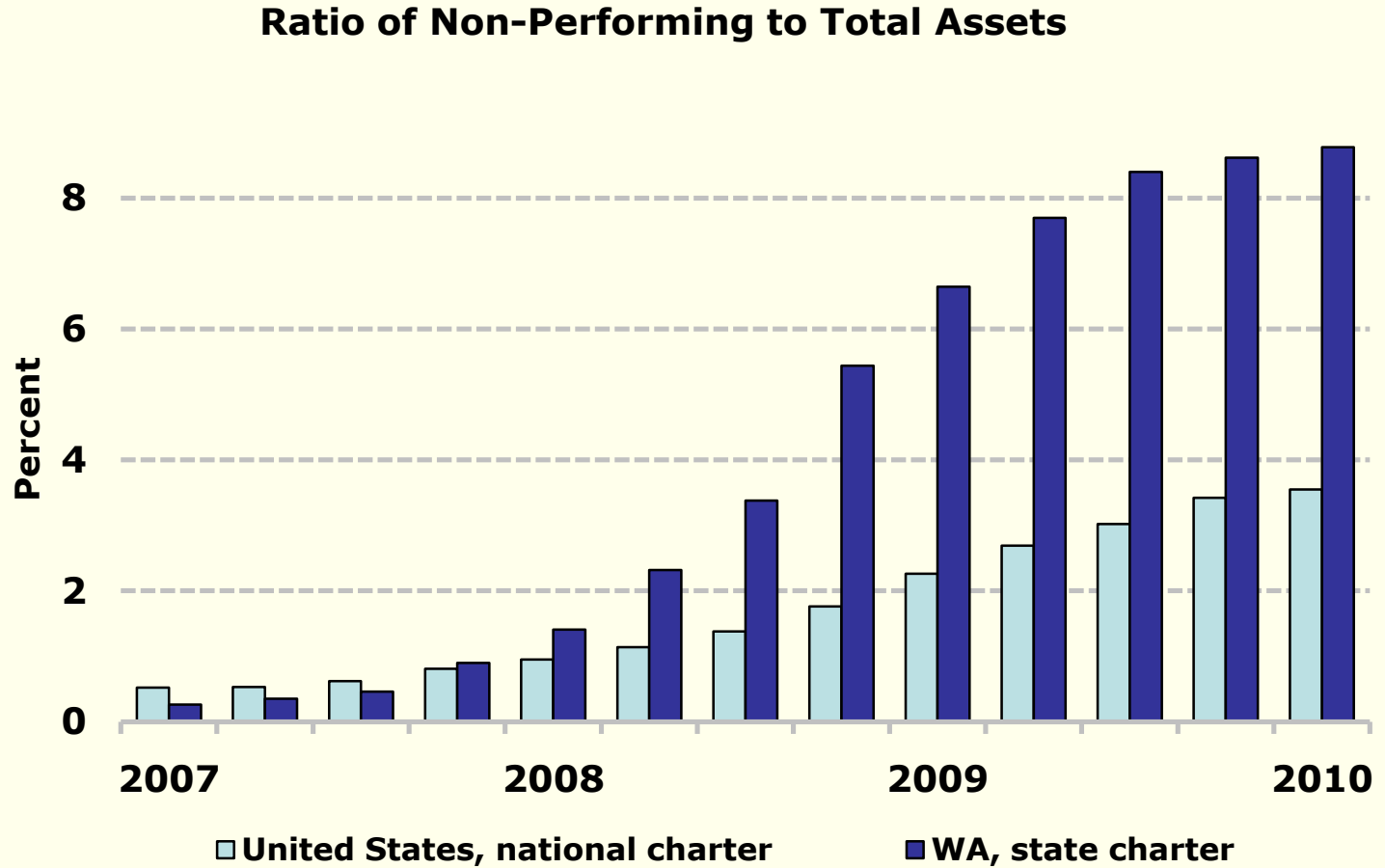
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through April 2010 survey

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Asset quality of regional banks is poorer, but leveling off

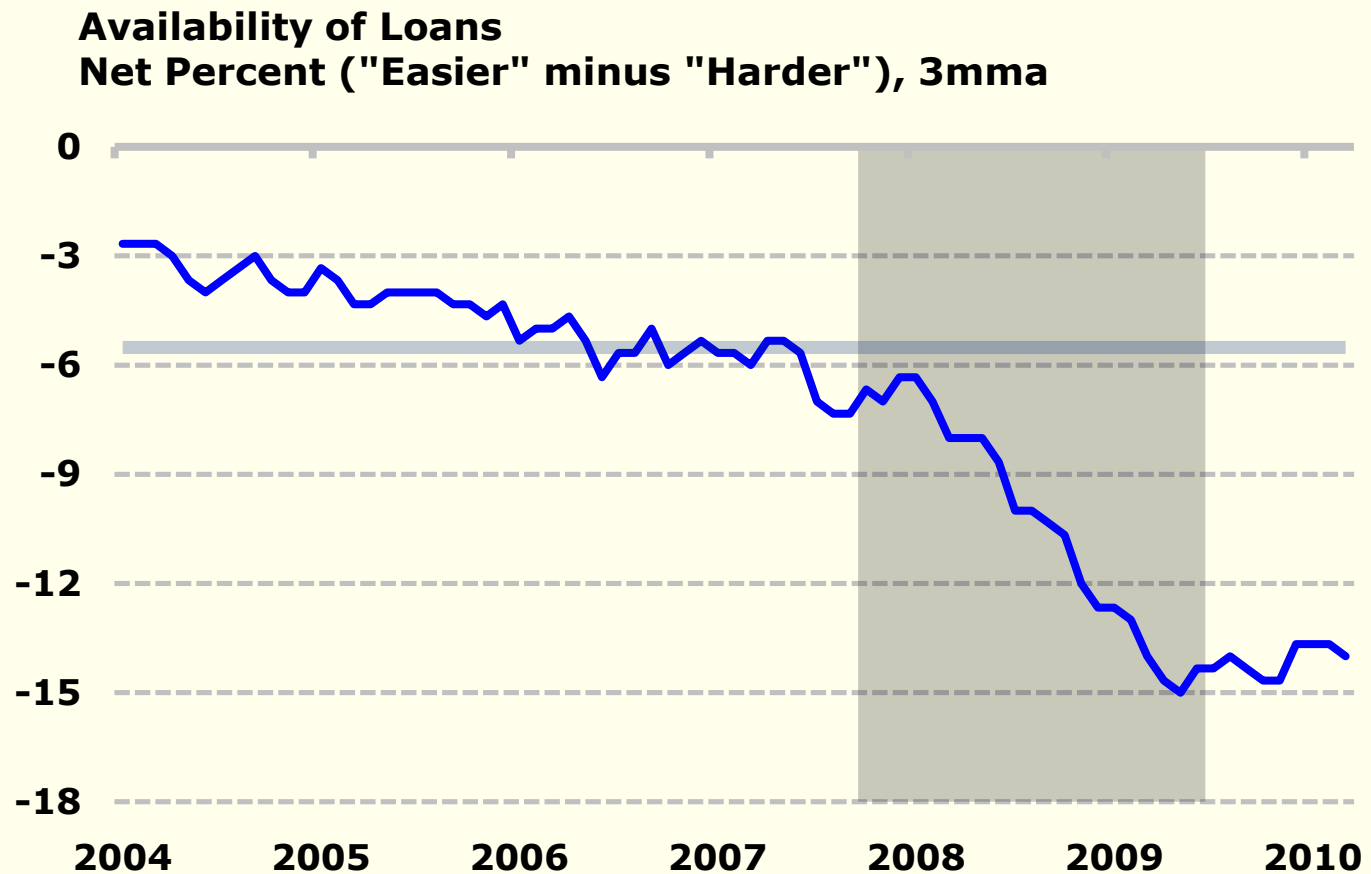
The poorer asset quality of regional banks is due to their disproportionately high exposure to commercial real estate



Source: FDIC, data through 2010 Q1



Credit conditions remain tight for small business



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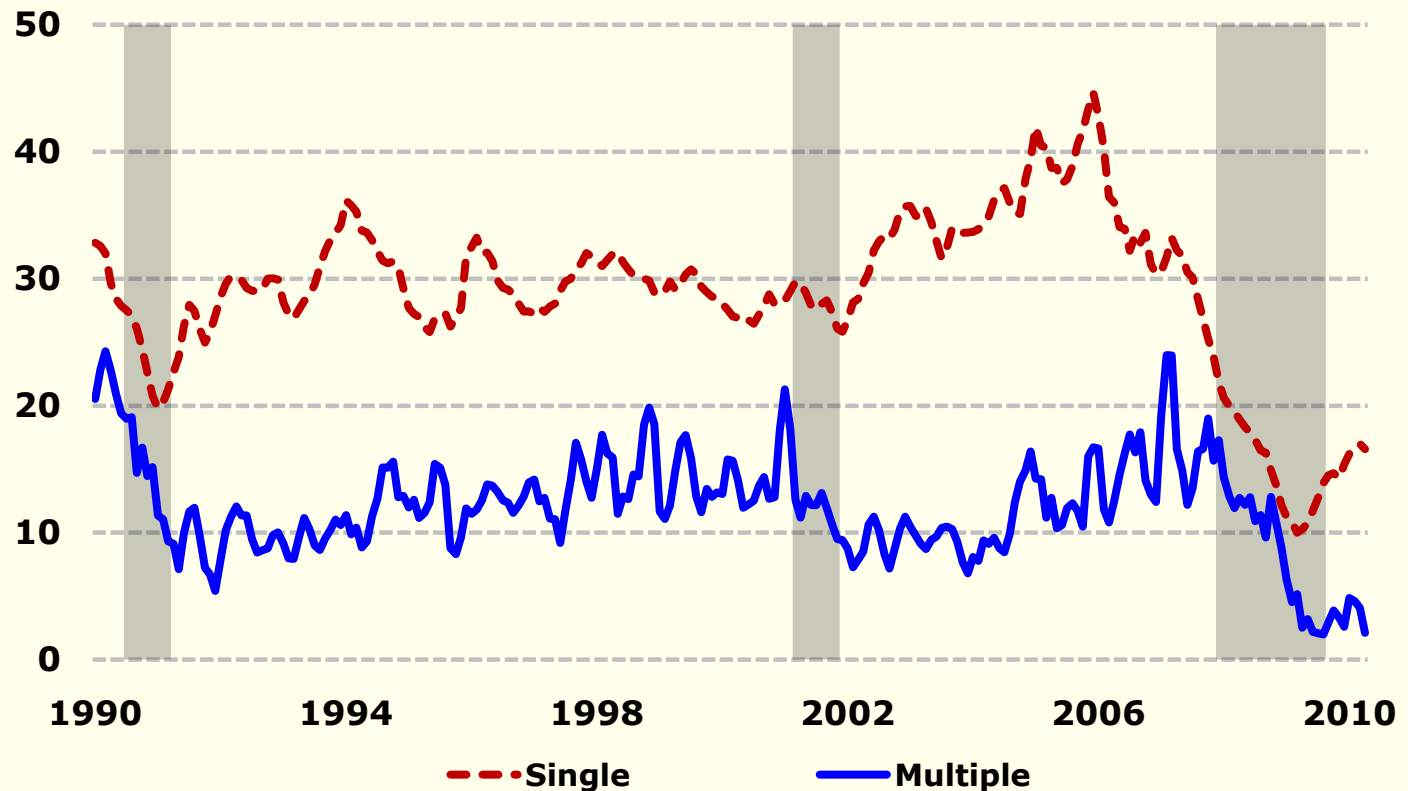
Source: National Federation of Independent Business; data through May 2010

Slide 15



WA single family housing is expected to flatten out, now that the first time homebuyer tax credit has expired

Thousands, SA, 3MMA



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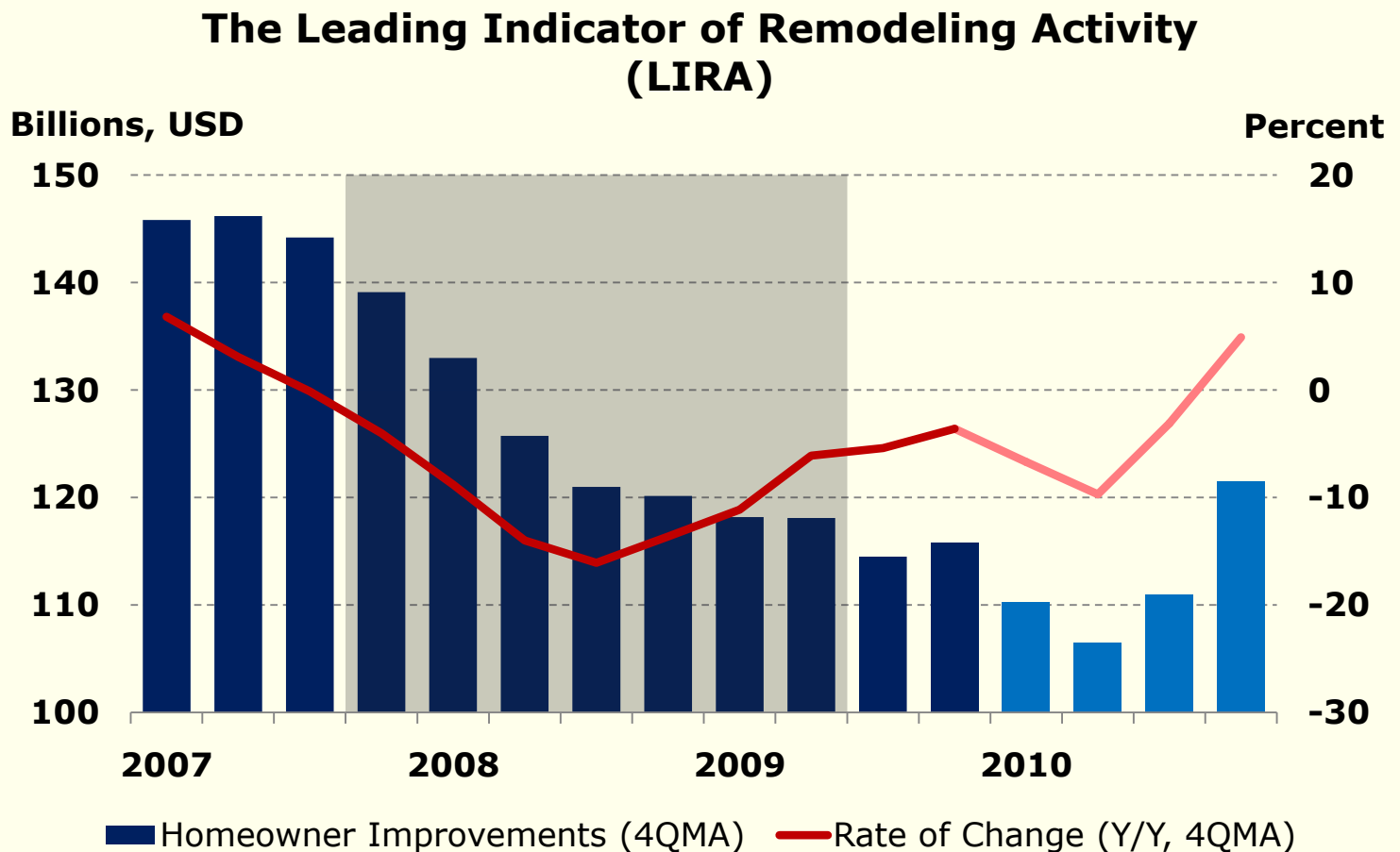
Source: U.S. Census Bureau; data through April 2010

Slide 16

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Leading indicator suggests remodeling improvement in 2010



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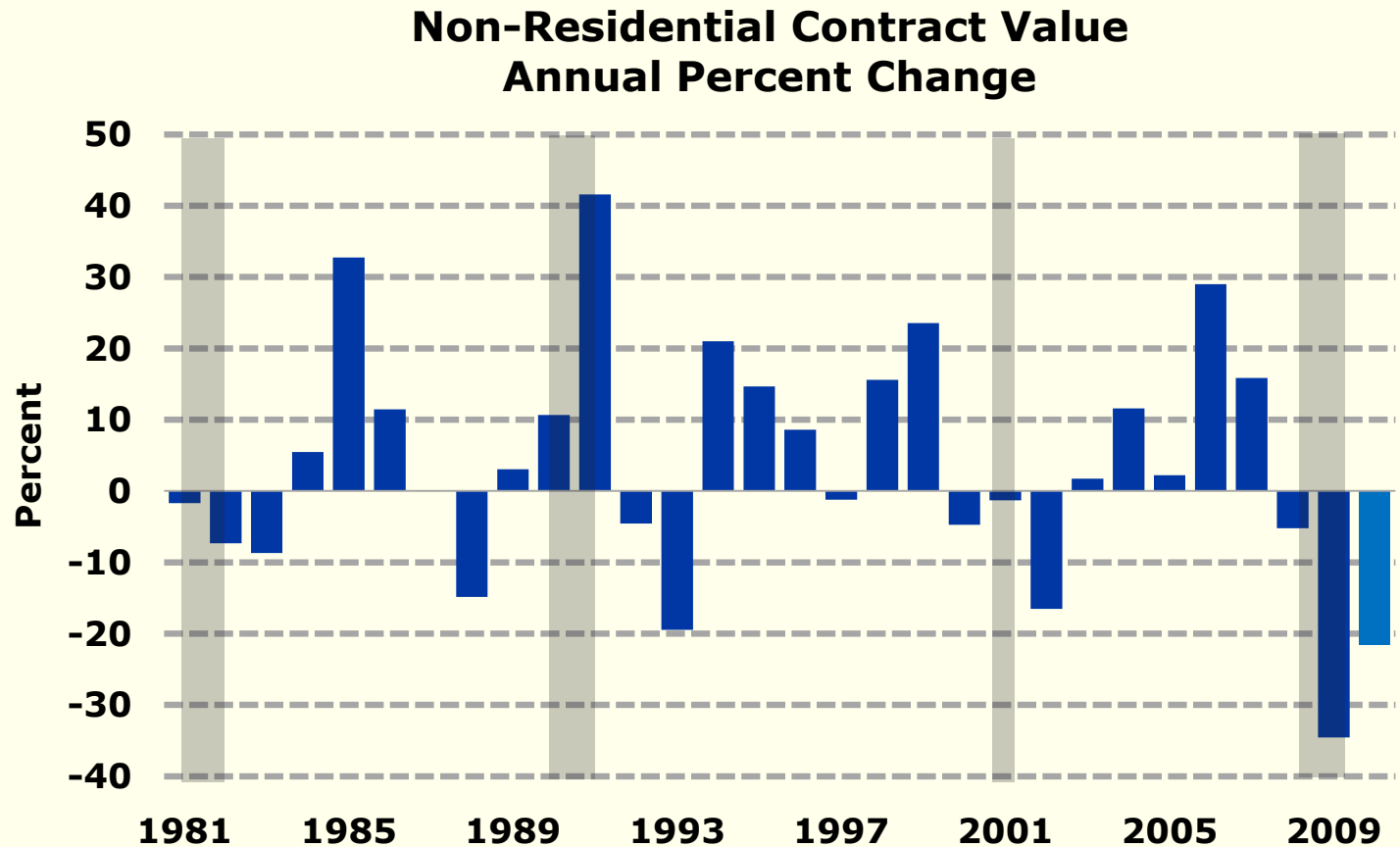
Source: Joint Center for Housing Studies of Harvard University, actual data through 2009 Q4

Slide 17

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This is the worst downturn in non-residential construction in 30 years

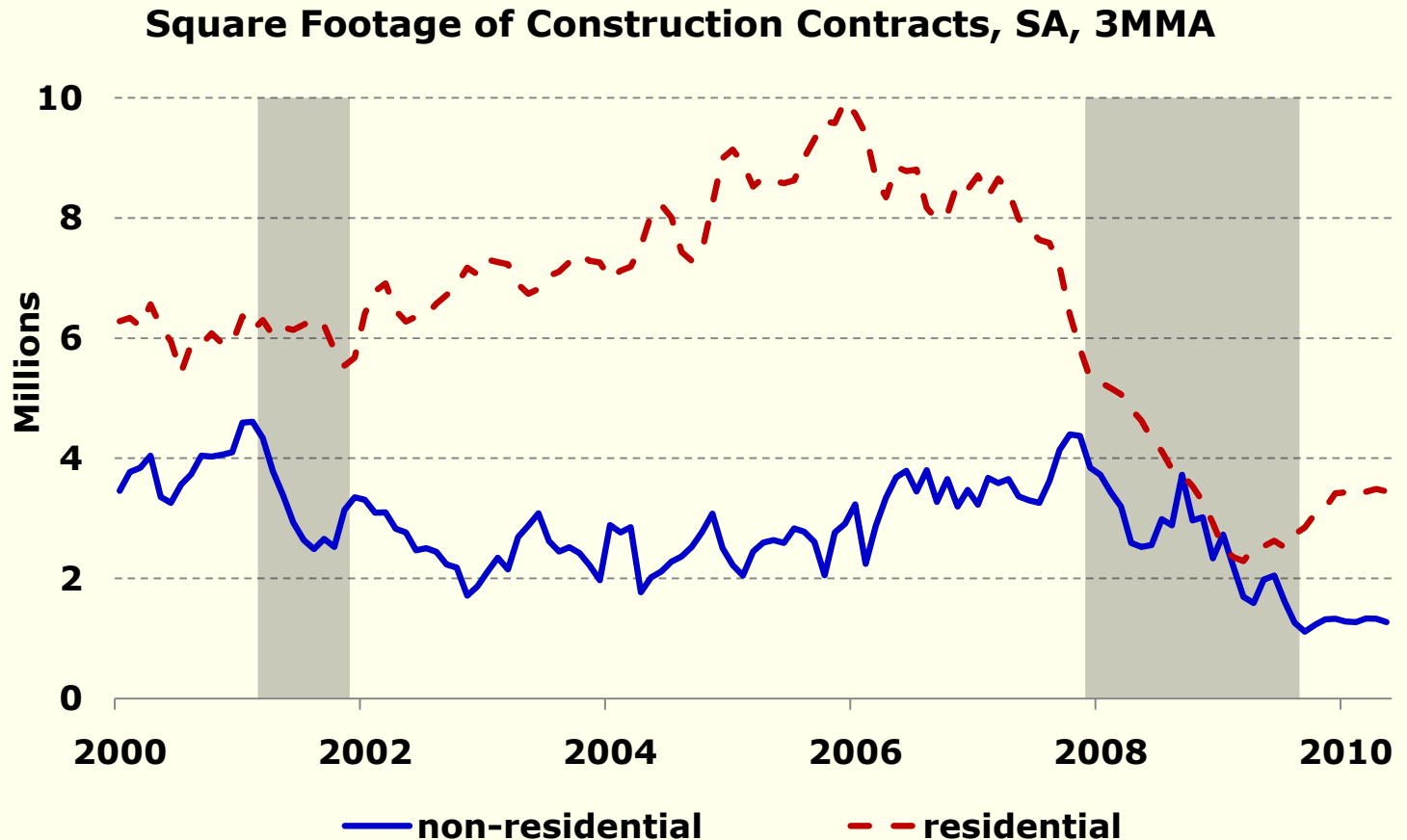


Source: McGraw-Hill Construction, data through May, 2010



New construction in WA is no longer in free-fall, but the recovery will be weak

Residential square feet is up 55% since reaching a trough in Jan 2009



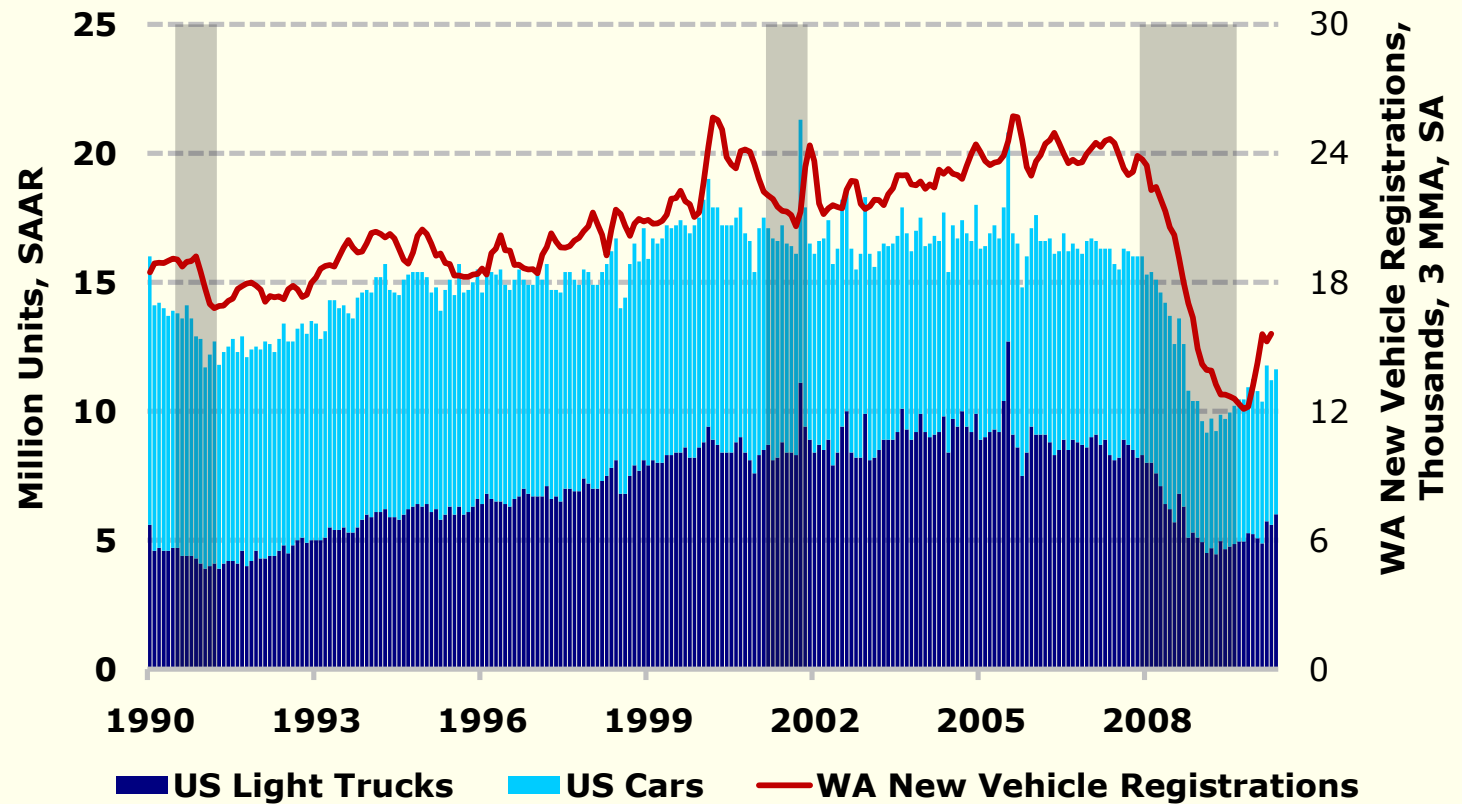
Source: McGraw Hill Construction, ERFC; data through May 2010



Automotive sales continue to improve

National car sales were 19% higher in May 2010 than in May 2009

Cash for Clunkers effect removed



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Source: Autodata Corporation, WA DOL; data through May 2010

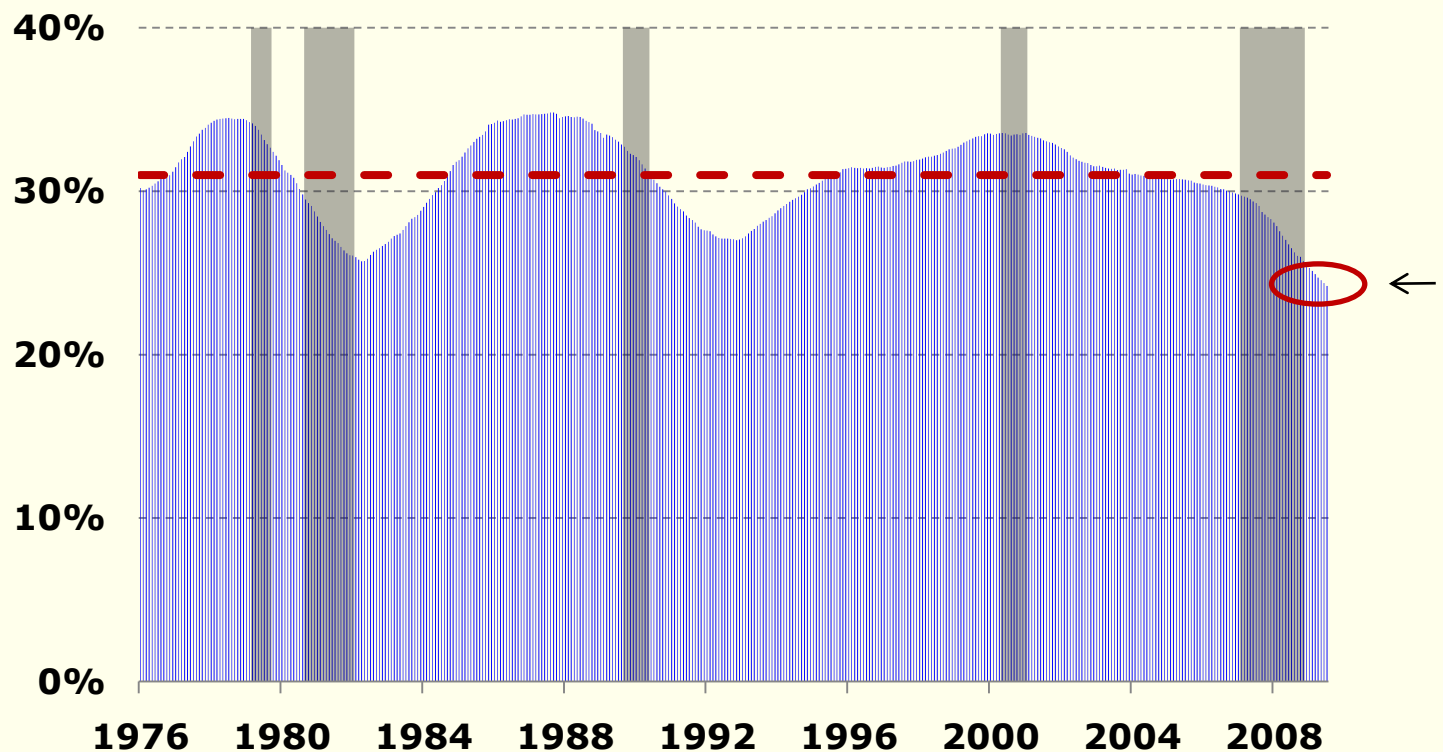
Slide 20



Relative age of the car fleet indicates continued turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months

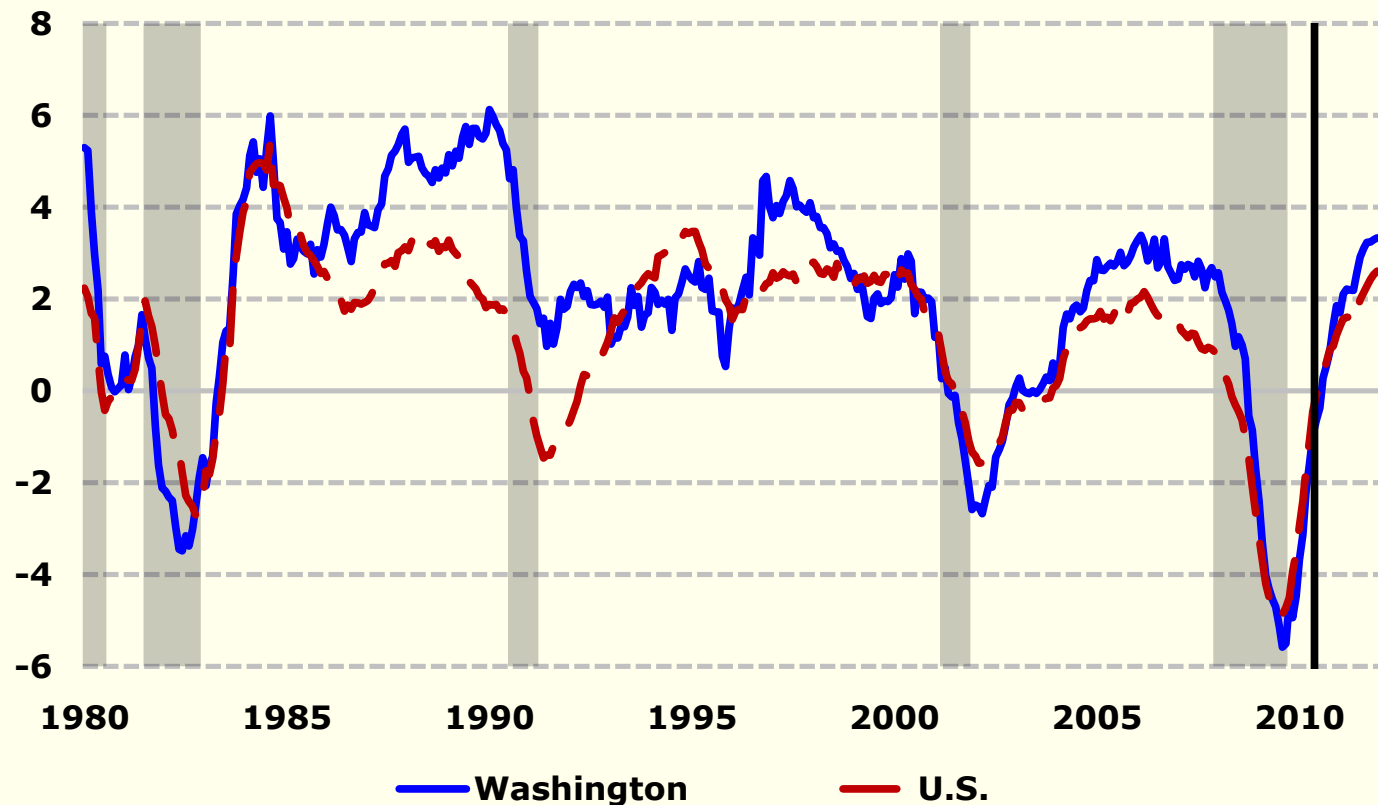


Source: Autodata Corporation, ERFC; data through May 2010



WA employment lagged the nation in the downturn and will recover stronger than the nation

Percent change, year ago



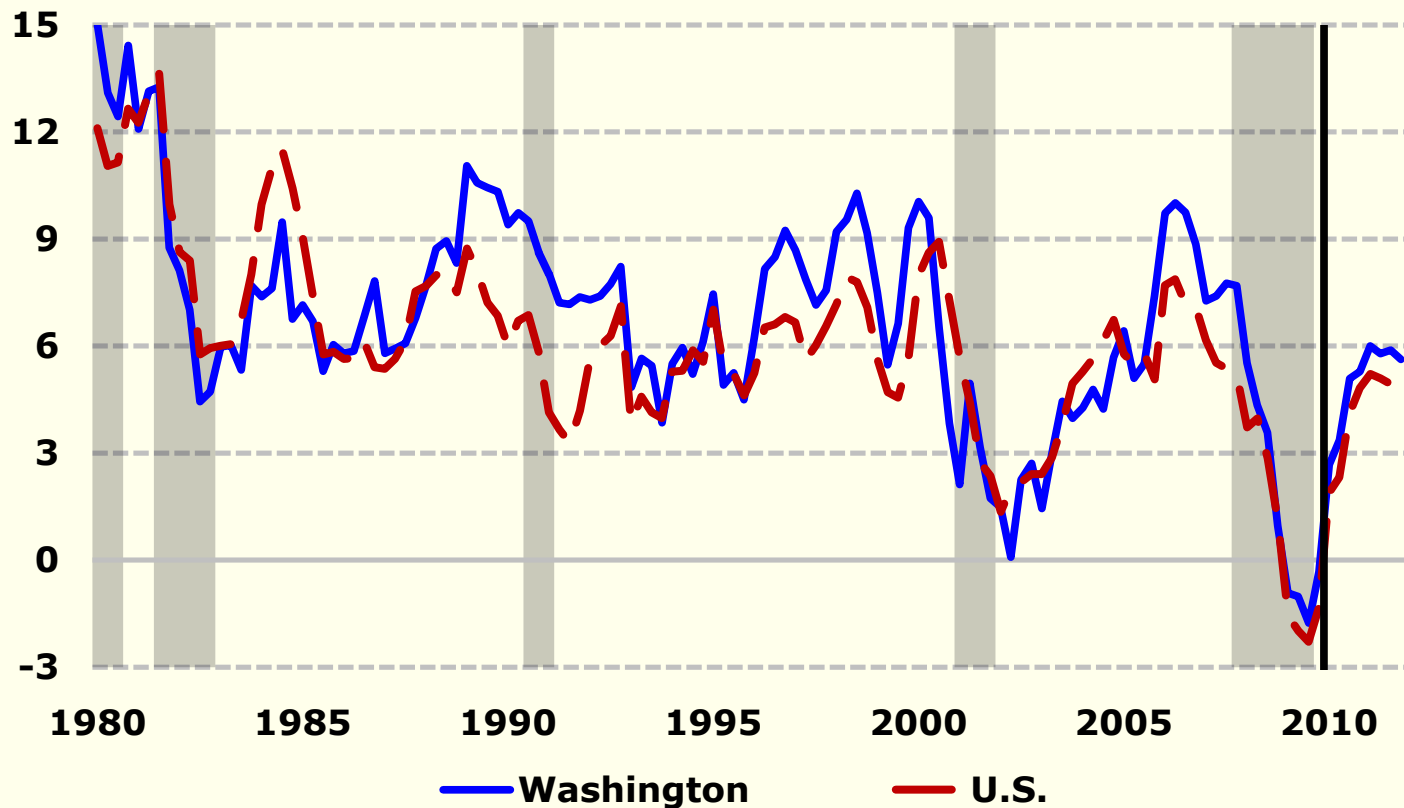
Source: ERFC June 2010 forecast; actual through May 2010

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The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago



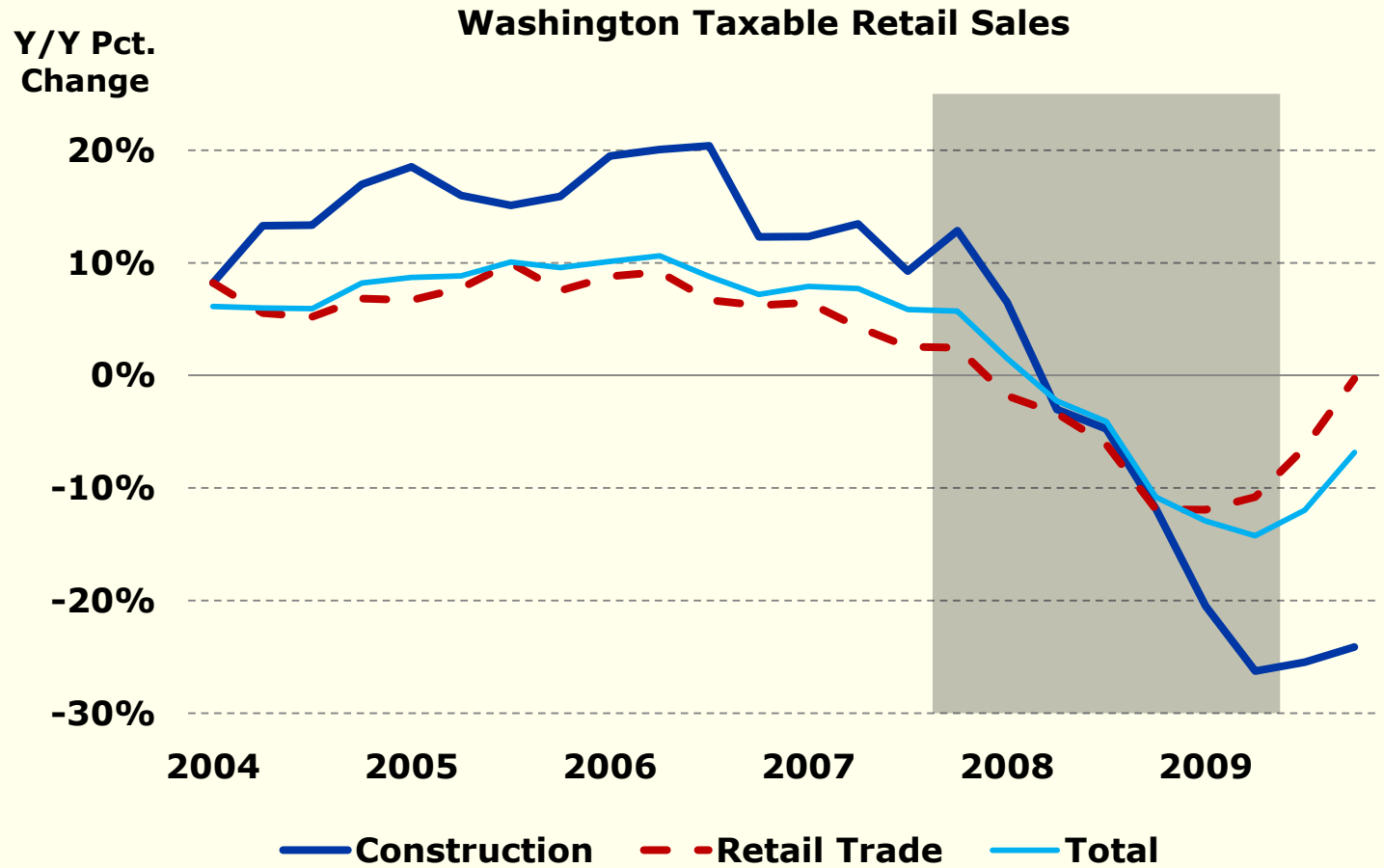
Source: ERFC June 2010 forecast; actual data through 2010Q1



Construction will continue to weigh down retail sales tax receipts

In recent years, tax receipts from the construction sector have accounted for 20% of retail sales tax revenue;

Retail trade accounts for 40%.



Source: DOR and ERFC; data through 2009 Q4

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Conclusion

Pluses

- Recovery in progress
- Evidence of pent up demand
- Job growth has returned
- Car sales are improving
- Large banks able to extend credit

Minuses

- Weak May
- Weak consumer confidence
- Credit still tight for small business
- Slow recovery in construction
- Possibility of European contagion



Questions



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Slide 26

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